

VZCZCXRO6108  
RR RUEHGI  
DE RUEHNJ #0237/01 0741025  
ZNR UUUUU ZZH  
R 151025Z MAR 07  
FM AMEMBASSY NDJAMENA  
TO RUEHC/SECSTATE WASHDC 5047  
INFO RUEHBP/AMEMBASSY BAMAKO 0803  
RUEHGI/AMEMBASSY BANGUI 1328  
RUEHNM/AMEMBASSY NIAMEY 2924  
RUEHYD/AMEMBASSY YAOUNDE 1495

UNCLAS SECTION 01 OF 02 NDJAMENA 000237

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DEPARTMENT FOR AF/EPS JANET POTASH

E.O. 12958: N/A

TAGS: [ETRD](#) [AGOA](#) [ECON](#) [CD](#)

SUBJECT: CHAD: INPUT FOR ANNUAL AGOA REPORT

REF: STATE 022438

11. (U) Summary: Per reftel, Embassy provides the following input on Chad for the President's 2007 Report on AGOA. End Summary

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Market Economy/Economic Reform/Elimination of Trade Barriers  
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12. (U) According to the UN Conference on Trade and Development (UNCTAD), flows of foreign direct investment into Chad ) concentrated almost entirely in the petroleum sector -- rose to \$705 million in 2005, from \$478 million in 2004. Eclipsed by petroleum, Chad's other major exports are cotton, cattle, and gum arabic. Chad has a small formal sector and a large informal import/export sector. Over the past decade, the Government of Chad (GOC) has made some progress in privatizing state enterprises, eliminating price controls and liberalizing the economy. This process is expected to continue with the long overdue privatization of the cotton parastatal, CottonTchad. Although Chad continues to express interest in encouraging foreign direct investment, foreign and domestic investors alike report that the business climate could be significantly improved. Additionally, escalating violence in the East and widespread corruption discourages foreign investment.

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Trade Liberalization  
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13. (U) Chad has no discriminatory rules to deter foreign investors. As a member of CEMAC (the Central African Economic and Monetary Community) and a signatory to OHADA (the Organization for the Harmonization of African Business Law), Chad participates in regional efforts to standardize tax policies and commercial law, but limits investment in sectors deemed sensitive such as cotton, electricity production, and telecommunication in order to protect enterprises. Chad has made little progress in reducing impediments to investment such as weak infrastructure, chronic energy shortages, high-energy costs, scarcity of skilled labor, a high tax burden, and corruption. French commercial interests are not a serious barrier to U.S. investors.

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Political Pluralism/Rule of Law/Anti-Corruption  
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14. (U) The Government of Chad continues to have a weak record on rule of law, political pluralism, and the safeguarding of due process rights. The May 2006 presidential election was

flawed and the major political opposition groups did not participate. Corruption is universally acknowledged as one of most serious problems in Chad. The Ministry of Moralization was established in 2004 to combat corruption. It uncovered several cases of fraud and embezzlement in 2006, but Chad,s weak judicial system has not brought the accused to justice. Chad is a candidate for U.S. Millennium Challenge Account assistance.

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Poverty Reduction  
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¶15. (U) Chad has one of the lowest per capita GDPs in the world. Under an agreement with the World Bank for oil sector infrastructure financing, 70 percent of government revenue is to be allocated to health, education, rural development, and other social services. Chad also committed to work with the World Bank on preparation of a Poverty Reduction Strategy Paper in 2007. While the government has ramped up its infrastructure projects, oil earnings of some \$1.3 billion since project start-up in 2000 have yet to noticeably reduce poverty. Expenditure on security and defense continues to be high, reflecting threats from rebel groups based in Sudan. In early 2007, the International Monetary Fund (IMF) will begin a review of Chad,s progress to receive debt relief under the Heavily Indebted Poor Country program. The IMF is also considering a renewal of Chad,s Poverty Reduction and Growth Facility, which failed to take place in late 2005, owing to Chad,s deteriorating fiscal performance.

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Labor/Child Labor:  
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¶16. (U) Chadian law allows all employees except members of the armed forces to join or form unions of their choice without excessive requirements, and the government generally respects this right. Chad ratified ILO Convention 29 in 1969 and ILO Convention 105 in 1961. Unions may organize and bargain collectively; however, the law permits imprisonment with forced labor for participation in illegal strikes. The Chadian Government,s efforts to combat the worst forms of child labor have been centered on laying the legal foundation to meet its commitments to international labor conventions aimed at protecting children. Although the labor code stipulates that the minimum age for employment in the formal sector is 14, the government does not enforce the law. Few children have the opportunity for education beyond the primary level. An estimated 20 percent of children between the ages of six and 18 work in abusive, exploitive labor conditions in the urban informal sector as street vendors, manual laborers, domestic servants and helpers in small shops. Children throughout the country work in agriculture and herding. Chad has ratified ILO Convention 182, but a comprehensive executive decree harmonizing Chad,s legal code with ILO 182 and 138 submitted to the Council of Ministers in 2005 has yet to be approved.

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Comment  
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¶17. (U) Chad,s eligibility for AGOA trade privileges bears careful scrutiny in the coming years. In particular democracy and good governance remain serious concerns. That said, the Embassy, through its Economic and Commercial Section and Democracy and Development Section, continues to assist the Government of Chad and local businesses to benefit from AGOA opportunities.

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